

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 1999-397-S - ORDER NO. 2001-243
MARCH 15, 2001

IN RE:	Application of Moore Sewer f/k/a Palmetto)	
	Utilities of Spartanburg for Approval of an)	ORDER APPROVING
	Increase in its Rates and Charges for Sewer)	RATES AND CHARGES
	Services in Linville Hills, Spartanburg)	
	County, SC.)	

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Moore Sewer, Inc. F/K/A Palmetto Utilities of Spartanburg, Inc. (Moore Sewer or the Company) for approval of an increase in its sewer rates. The Company serves residential customers in Spartanburg County, South Carolina. The Company has approximately 263 customers, and is presently operating under rates set by this Commission in Docket No. 87-204-S by Order No. 89-82.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate) and Leonardo Jordan. A Petition to Intervene Out of Time filed by Ralph W. Longshore was granted.

Accordingly, a hearing was held on March 7, 2001 at 2:30 PM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Bradley, Carruth, and Moseley heard the case. Commissioner Bradley acted as Chairman. Moore Sewer was represented by John J. Pringle, Jr., Esquire. The Company presented the testimony of William G. Teichman. The Consumer Advocate was represented by Charles M. Knight, Esquire. The Consumer Advocate presented no witnesses. Leonardo Jordan and Ralph W. Longshore appeared pro se. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Sharon G. Scott and Charles A. Creech.

William G. Teichman testified on behalf of Moore Sewer. Teichman noted that he purchased the stock of Palmetto Utilities of Spartanburg, Inc. and changed the name of the utility. Teichman stated that the Company had not had a rate increase for a number of years and that the present rates could not adequately pay for necessary repairs to the system. Teichman stated that the sewer system in question is made up of thirty-year-old terra cotta pipe, which requires considerable maintenance. Further, the system's manholes need relining to prevent infiltration, according to the witness. Moore Sewer is currently serving the Linville Hills Subdivision. The subdivision is located in Moore, South Carolina, in Spartanburg County. Approximately eighty (80) residents are served by septic tanks and drain fields, and the remaining ones are users of the Moore system.

According to Teichman, the sewerage system includes 11,000 feet of six (6) and eight (8) inch drain pipe, approximately two hundred seventy-five (275) taps, and approximately thirty-four (34) to thirty-six (36) manholes. Effluent flows, via a pure

gravity feed, into a five (5) acre treatment lagoon, where it is treated by three (3) aeration pumps, 2 of which operate around the clock. The remaining water is chlorinated, de-chlorinated, and disposed of by authorized discharge into an unnamed creek dubbed “Teichman Trickle Stream.” The plant is currently permitted for 499,999 gallons per day, and processes roughly 120,000 gallons a day. Teichman noted that the Company had lost a major customer since the last rate case in Dawkins Middle School.

Teichman noted that he was caught between the Department of Health and Environmental Control (DHEC) and the Spartanburg Sanitary Sewer District (SSSD). DHEC had stated that the Company’s NPDES permit requires the Company to cease using the lagoon to treat the sewerage collected in Linville Hills, and connect its customers onto the SSSD interceptor sewer line, for ultimate treatment at the North Tyger Wastewater Treatment Facility. Unfortunately, the SSSD stated that the additional flow from the Linville Hills Lagoon would severely restrict the SSSD’s ability to receive flow from potential customers or potential developments. DHEC then informed Moore Sewer that it was in violation of its NPDES permit for failure to connect to the SSSD System. While this constitutes a dilemma, Teichman noted on cross-examination that capacity may be available from SSSD within a six-month period.

Teichman described some of the upgrades and changes to the system that he has made since purchasing Moore Sewer. He has rebuilt the two aeration pumps located at the treatment lagoon, and has replaced the flow meter on the back of the treatment lagoon, among other things.

Teichman is requesting an increase in rates from \$17.50 per month to \$39.99 per month, flat rate. Teichman states that Moore Sewer customers have received service for over 11 years at the 1989 rate, and a rate increase is greatly needed at this time, in that the Company is experiencing an insufficient level of earnings to continue to fund its operations. The Company must also have rate relief in order to comply with the conditions of its NPDES permit. Teichman states that the proposed rates fairly distribute the cost to the consumer of providing those services, while at the same time placing the Company on a more solid financial footing, allowing the Company to perform necessary maintenance to the system, and giving the Company the ability to prepare the system to be tied on to the District main.

Ralph W. Longshore and several public witnesses testified in opposition to the proposed rate increase.

The Commission Staff presented the testimony of Sharon G. Scott, Auditor, and Charles A. Creech, Chief of the Commission's Water and Wastewater Department. Ms. Scott proposed a number of accounting adjustments, and disallowed others proposed by the Company.

First, the Company proposes to prepare for connection to the SSSD by inspecting and jet cleaning its pipes. The estimated cost is a total of \$44,000 over a two-year period for a test year adjustment of \$22,000. Since the Company had not incurred the expense, Ms. Scott did not allow the adjustment. Further, the Company proposed an adjustment of \$30,000 for relining its manholes to reduce infiltration. Again, since the Company had not incurred the expense, the Staff auditor did not allow the adjustment.

In addition, Ms. Scott disallowed several of the Company's proposed adjustments because of an inability to find any known or measurable change for the basis of the adjustments. Examples of these are office supplies, postage, and license fees and license research information expenses. Staff proposed an adjustment for the Company's office electric, gas, and water utilities, and chemical expense, and proposed modified adjustments in areas where the Company had estimated figures, and Staff was able to come up with more exact figures.

One area of difficulty related to the fact that Mr. Teichman was found to have borrowed funds from the Company during the test year totaling \$61,231. An amount of \$13,550 was repaid during the test year, leaving a test year-end balance of \$47,681. Part of this debt was to pay the prior owner, Mrs. Henderson, for her shares of stock in the Company. None of this balance had been repaid to the Company. During the course of the hearing, counsel for the Company introduced into the evidence a note from First Citizens Bank for the amount of \$50,000, which represented the amount of the debt. The note was signed by Mr. Teichman, both as President of Moore Sewer, and as an individual, thus making him liable for the note as well as the Company. Mr. Teichman had proposed a salary adjustment for himself. Staff witness Scott testified that this should not be allowed as long as the debt was outstanding to the Company. Scott noted that if the debt was satisfied, then she would not oppose a salary for Mr. Teichman. After the hearing, correspondence from First Citizens Bank was received which converted the note solely to Mr. Teichman's name, thus satisfying the debt to the Company.

Staff proposed other adjustments for accounting and legal fees, depreciation expense, taxes and customer growth.

Ms. Scott notes that, as computed by Staff, the resultant operating margin from the rates being requested in this case is 48.97%.

Charles A. Creech also testified for the Commission Staff. Creech pointed out that the Company's present regulated revenue under the presently approved rates and after Staff's adjustments for the test year is \$66,306. Using the requested rates, the revenue would be \$139,331 for an increase of \$73,025, or 110.13%.

FINDINGS OF FACT

1. Moore Sewer is a sewer utility under the jurisdiction of the Commission, and it serves the Linville Hills subdivision of Spartanburg County, South Carolina. (Testimony of Teichman.)

2. Moore Sewer is seeking a rate increase in its flat rate sewerage charges from \$17.50 to \$39.99 per month. (Testimony of Teichman and Creech.)

3. The system presently has approximately 263 customers. (Testimony of Teichman.)

4. The Commission Staff's adjustments should be adopted in toto, for the reasons stated in the testimony and exhibits of Staff witness Scott, with one exception as stated below. The Company's proposals for inspecting and jet cleaning its pipes, and for relining its manholes must be rejected, since the Company has not yet incurred these expenses. Adoption of the Staff's adjustments for the cost of the Company's office electric, gas, and water utilities is appropriate. The Staff computed the proper allowance

by allocating the expenses based on the square footage occupied by the Company. The Company's chemical expense adjustment was an estimate. Staff's adjustment was based on actual invoice costs. We believe Staff properly rejected all adjustments which were not known and measurable and/or were based on estimates. All other Staff adjustments were based on known and measurable amounts, including rate case expenses. On rate case expenses, an exhibit was filed at the hearing which showed additional rate case expenses. We approve a modified rate case expense adjustment based on the exhibit filed at the hearing. Since the Company filed its late-filed exhibit showing that the First Citizens Note had been taken out of the Company's name and placed solely in the name of Mr. Teichman, we agree that, in effect, the debt of Mr. Teichman to the Company has been ended. We therefore approve Staff's contingent salary adjustment for Mr. Teichman. (See testimony of Scott.) We do, however, believe that Mr. Teichman should personally pay Mrs. Henderson for the purchase of the shares of stock of the utility.

5. The testimony presented justifies the granting of a 24.51% operating margin, which is achieved by the granting of an increase in rates from \$17.50 to \$28.50 per month, flat rate.

CONCLUSIONS OF LAW

1. Moore Sewer is a sewer utility operating in Spartanburg County, South Carolina.
2. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq (1976) as amended.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff is appropriate and each is hereby adopted by the Commission, based on the reasoning stated above. We also specifically grant Staff's salary adjustment, since, in effect, Mr. Teichman's debt has been repaid to the Company. (See late-filed exhibit.) However, we do hold that Mr. Teichman should personally pay Mrs. Henderson for the stock purchase of the utility.

4. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

5. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the sewerage treatment, the quality of the service, and the effect of the proposed rates upon the consumers.

6. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a 24.51% operating margin on its regulated sewer operations. In order to have a reasonable opportunity to earn a 24.51% operating margin, the Company will need to produce \$102,023 in total annual operating revenues.

TABLE A

OPERATING MARGIN

Operating Revenues	\$102,023
Operating Expenses	<u>77,386</u>
Net Operating Expenses	24,637
Customer Growth	<u>369</u>
Total Income for Return	<u>25,006</u>
Operating Margin	<u>24.51%</u>

7. In order to earn the operating revenues necessary to earn an operating margin of 24.51%, the Company must earn revenues of \$102,023. In order to earn these revenues, we hold that the rate of \$28.50 per month flat rate should be granted.

8. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

9. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

10. It is further ordered that the Company maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for sewer utilities as adopted by this Commission.

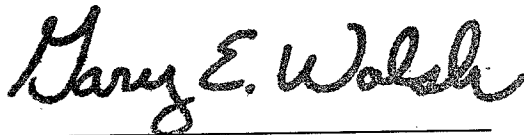
11. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)

Moore Sewer
William G. Teichman, Owner
P.O. Box 2753
Spartanburg, SC 29304
864-582-3335

DOCKET NO. 1999-397-S
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EFFECTIVE DATE: MARCH 15, 2001

PRESENT SEWER RATE SCHEDULE

1. MONTHLY CHARGE

- | | |
|-------------------------|----------|
| a. <i>Residential -</i> | \$ 28.50 |
| b. <i>Commercial -</i> | \$ 28.50 |

2. NONRECURRING CHARGES

- | | |
|---|----------|
| a) <i>New Customer Set-Up -</i> | \$ 10.00 |
| b) <i>Notification of Disconnection -</i> | \$ 6.00 |